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UNITED STATES DEPARTMENT OF AGRICULTURE
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ECONOMICS RESEARCH ADVISORY COMMITTEE NAT
REPORT AND RECOMMENDATIONS
Sixth Meeting, February 24-26, 1959
Washington, D. C.

DEC 11 1964
C & R-ASF

HIGHLIGHTS

The Committee was impressed with the quality of the Department's economic research, especially with efforts to come to grips with some of the most pressing problems. It felt, however, that the resources devoted to economic research are still inadequate, particularly in view of the increasing seriousness of the surplus problem, and of the great impacts of new technology on agriculture. Problems especially in need of more attention include:

Agricultural Prices, Supply, and Consumption. To meet the price-income problem in agriculture, accurate appraisals of price and demand prospects for farm products are needed, and these, in turn, require expanded research to identify and measure the factors that affect the price, supply, and consumption of these products.

Economics of New Technology. New production practices affect farm costs, output and income and thereby influence the nature of needed farm adjustment programs. Research to explore the rate of adoption of new technology, and the effects of technological changes on resource requirements and farming efficiency needs expansion.

Farm Program Analysis. To determine the economic effects of alternative courses of action designed to bring agricultural production in better balance with consumption, expanded research is needed.

Analysis of Production Response. The continuing tendency for farm production to outrun market outlets results in persistent demands for changes in production control and price-support programs. The effect of prices, costs, and other factors on commodity production and total farm output needs more intensive research so that any such program changes may be guided by reliable information.

Vertical Integration. Research should be expanded on agriculture-business integration to appraise its implications for production, efficiency, incomes, financing, risk, the future of family farms, product quality, market organization and costs, and pricing practices.

Effect of Tax Structure Changes on Agriculture. Because state and local government costs are straining revenue sources, many states are considering changes in tax structures. Research is needed to ascertain how various such changes would affect agriculture.

Effect of Suburbanization on Rural Population. Continuing expansion of metropolitan areas causes thousands of farm families to change occupations and mode of living each year. Studies of the nature, extent and consequences of these changes are needed as a guide to beneficial action.

Supply and Price Adjustments in Competing Markets. Shippers, wholesale receivers, and retailers need to adopt practices and organizations that will promote rapid and efficient adjustments in supplies. To aid them in this, research is needed on adjustments in supplies that shippers, wholesale receivers, and storage operators can make to meet changing market conditions, and the price adjustments that retailers and other buyers must make to achieve needed adjustment in supplies.

Output and Efficiency in Farm Food Marketing. In order to promote efficiency in marketing agricultural products, more research is needed on how much of the rise in marketing costs reflects increased services or higher costs per unit of service; whether food marketing firms are more or less efficient than those in other business, and what accounts for differences found; and what parts of the marketing system offer most chance for increasing efficiency.

Coordination in Economic Research. Continuing attention should be given to coordination of economic research within the Department.

ECONOMICS RESEARCH ADVISORY COMMITTEE

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California, Berkeley, California

Robert K. Buck, Waukegan, Iowa

M. K. Horne, Jr., Chief Economist, National Cotton Council of America,
Memphis 12, Tennessee

H. B. James, Director of Instruction, North Carolina State College of
Agriculture and Engineering, Raleigh, North Carolina

M. E. John, Head, Department of Agricultural Economics and Rural Sociology,
Pennsylvania State University, University Park, Pennsylvania

Lester S. Kellogg, Director of Economic Research, Deere and Company, Moline,
Illinois

Richard L. Kohls, Professor of Agricultural Economics, Purdue University,
Lafayette, Indiana

D. Gray Miley, Managing Director, Panther Burn, Company, Panther Burn, Miss.

W. E. Morgan, President, Colorado State University, Fort Collins, Colorado,
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C. P. Barnes, Agricultural Research Service, U. S. Department of Agriculture
serves as Executive Secretary, and can supply additional copies of this report.

REPORT AND RECOMMENDATIONS
of the
ECONOMICS RESEARCH ADVISORY COMMITTEE

GENERAL RECOMMENDATIONS

Resources for Economic Research. We are impressed with the quality of economic research in the Department, and especially with the efforts to come to grip with some of the most pressing current problems.

It is our opinion, however, that the quantity of research resources devoted to economic research in the Department is still inadequate, particularly when viewed with respect to the increasing seriousness of the surplus problem or with respect to the very large impact of new technology on agriculture.

Coordination in Economic Research. We recommend continuing attention to the problem of coordination of the economic research carried on in the Department. Coordination should start with problem formulation, and should continue in developing project plans, in assigning different phases of the work among research units, in arranging cooperation with the land grant colleges, and in analyzing and interpreting final results.

Many of the critical economic problems require a coordinated research attack. An example of such a problem to which we would give a very high priority is the supply area, including production response to different factors, and supply in relation to price elasticity.

Research Under Public Law 480. We urge the Department to explore possibilities of using the resources afforded through Public Law 480 for research on how to achieve economic growth in underdeveloped countries.

We believe the increased potentialities for trade with these nations following their improved income resulting from economic development, would benefit not only themselves, but the United States as well. Conceivably, some of this research could be carried on in the more highly developed countries.

COMMENTS ON WORK UNDER WAY

The Committee has reviewed the research in progress in its field of interest, and the plans for its continuation in the year ahead. It believes the work is generally aimed at solution of the more pressing economic problems, some of which warrant a more intensive attack than they are getting. Recommendations concerning needs to expand research on these problems are contained in the next section, under the head: "Recommendations for New or Expanded Research."

The Committee makes the following suggestions regarding the work under way, and the plans for its continuation:

Price Supply and Utilization Analysis for Farm Products. It is hoped that ways of expressing the limitations in the predictability of both

production and disappearance of commodities will be sought in order that users may be better aware of the uncertainties and risks inherent in the use of such predictions.

Commodity Situation and Outlook Analysis. It is suggested that the strengthening of effort planned in this work emphasize improvement in quality and efficiency of statistical work rather than expanding its scope.

Farm Taxation and Rural Government. As individual studies in this area are completed, the resources might well be concentrated on a smaller number of studies in the areas of greatest need. In this way more emphasis can be given to analysis of the most pressing major problems.

RECOMMENDATIONS FOR NEW OR EXPANDED RESEARCH

The recommendations which follow are in terms of the relative importance of problems needing research in which the Department should participate. The Committee recognizes that it is not its responsibility to delineate between research to be conducted within the Department, and that to be conducted in cooperation with the State Agricultural Experiment Stations and other research agencies.

I. PRICE, SUPPLY, AND CONSUMPTION RESEARCH 1/

Agricultural Prices, Supply and Consumption. The continued price-income problem in agriculture has increased the need for accurate appraisals of price and demand prospects for farm products, both in the near future and over longer periods. Basic research aimed at identifying and measuring the economic factors that affect the price, supply, and consumption of the principal agricultural commodities needs substantial expansion. This expanded research should proceed along three lines: (1) Measurement of the economic influences that affect the demand for farm products; (2) measurement of factors that affect supplies of farm products; and (3) improvement of statistical methods for measuring economic relationships. Study should be given to the inherent limitations on the predictability of both production and disappearance of agricultural commodities and the implications thereof for a sound agricultural policy, particularly with reference to what constitutes adequate reserve stocks.

II. FARM INCOME RESEARCH 2/

Farmers' Income and Expenditures by Major Economic Classes of Farms. Break-downs of farm income data by economic class of farms and the surveys necessary

- 1/ Recommendations in this and each of the other main sections of this report are given in order of priority. The single recommendation in this section is of high priority.
- 2/ The single recommendation under this heading is of medium priority.

to support such estimates are essential for properly developing and evaluating policies for American agriculture. An annual nationwide survey of farmers' income (including off-farm income) and expenditures should be initiated to provide the means for estimating on a regular basis the incomes of farm families for at least three categories--large commercial farms, small commercial farms, and all other farms.

III. LAND AND WATER ECONOMICS RESEARCH 3/

1. Land Use Impacts of Urban, Recreation and Transportation Expansion. Land and water requirements for nonagricultural purposes such as urban, recreation, and transportation are becoming increasingly important, and their competitive and complementary impacts on agricultural activities are widespread. Research should be initiated to appraise the economic significance of expanding non-agricultural uses of rural land and water resources and their impacts on agricultural uses.

Some farmers benefit from such changes in land use while others may be adversely affected. Means of reducing adverse effects and implementing desirable developments would benefit both individual farmers and the community.

2. Evaluation of Measures for Guiding Land Use. Appropriate land use regulations and related public controls can contribute materially toward achieving desirable land utilization patterns at minimum cost. Expanded research is needed on regulatory measures for guiding land use in the public interest in areas of land use conflict or maladjustment.

Existing land use measures--zoning, easements, protective covenants, and other devices and techniques--need to be re-examined, reshaped and adapted where appropriate, and new measures designed as needed, for coping with varied and complex land use problems.

3*. Economics of Alternative Water Uses and Ways of Increasing Water Supply. The rapid expansion in domestic, industrial, and agricultural requirements for water increases the need for information on potential supplies and values in various uses. A systematic and continuing economic inventory and appraisal of the value of water in alternative uses should be initiated, with special emphasis on agricultural uses in relation to available and prospective supplies and requirements.

4*. Land Use Shifts and Tenure Adjustments in Problem Areas. Improved land uses and tenure arrangements are essential in many problem areas to maintain the resource base and strengthen the local economy. Expanded research is needed (1) to explore potential shifts in major land uses and how they can be accomplished most effectively; and (2) to determine how adjustment and resource development programs may be facilitated by changes in tenure and ownership arrangements. Such studies will show the feasibility of remedial programs designed to bring about better use of land and increase the efficiency of farm operations and the conservation of soil resources.

* These 2 recommendations are of equal priority.

3/ Recommendation 1 is of high priority; and recommendations 2 to 6 are of medium priority.

The major types of problem areas in need of study are the farming-urban margin, the farming-forest margin, the farming-grazing margin, and the farming-recreational margin. Every region of the country has one or more of these problem areas undergoing or in need of shifts in land use and changes in land tenure.

5**. Current Developments in Land Tenure. Technological advances, changes in price levels, employment and economic conditions, and government programs are among the many forces that have been operating to change the farm tenure structure with serious implications for efficient farming operations and the future of the family farm. There is need to expand present research and initiate new studies in land tenure arrangements.

Analysis is needed of (1) the nature and extent of farm consolidation; (2) the interrelations between farm-tenure arrangements and government programs with respect to the allocation of resources and the distribution of income in agriculture; (3) characteristics of the present ownership of farm and ranch land and how the ownership pattern affects the efficiency of resource use and the distribution of income in agriculture; and (4) the tenure implications of such developments as vertical integration, absentee ownership, and corporation and chain farming.

6**. Water Laws and Resource District Organization. Uncertainty of water laws and insecurity of water rights aggravate conflicts among competing uses and obstruct effective organization for development and use of water. Research on water laws and district organization for resource management should be expanded to determine the adequacy and effectiveness of existing legislation and administration.

IV. FARM COSTS, RETURNS AND EFFICIENCY RESEARCH ^{4/}

1. Economics of New Technology. New developments in livestock production such as feed additives, pelleted feeds and urea; and new crop production practices such as high analysis fertilizers and plant-growth regulators affect farm costs, output, and income and must be taken into account in farm adjustment programs. Research should be expanded to measure and evaluate the effects of specific technological changes on growth of farm output, use of resource inputs, resource efficiency, and income.

These studies should explore the factors that influence rate of adoption of new technology, and the effects of technological change on resource requirements and farming efficiency. The risks and uncertainties associated with adoption of new technology should also be studied. It is not enough to analyze experimental observations as such. The decision-making process requires consideration of probabilities and risks in the adoption of new technologies on a farm-enterprise scale.

** These 2 recommendations are of equal priority.

^{4/} Recommendation 1 is of high priority; and recommendations 2 to 6 of medium priority.

2. Competitive Position of Major Farm Enterprises in Important Producing Areas. Several important farm commodities are undergoing regional shifts in production indicating fundamental changes in production practices and costs. These changes have profound significance for farmers, businesses dealing with farmers, and agricultural program administrators. Costs and returns research should be expanded to provide for typical series in additional type-of-farming areas and to permit more complete analysis of available data to reveal inter-regional changes in costs, practices and productivity.

3*. Changes in Farm Costs for Major Commodities. The continuing cost-price squeeze in agriculture has focused attention on the nature of farm costs, the relation of changes in output to unit costs and cost differentials among various sizes of farms. Research should be expanded on the nature of the cost structure of farms and farm enterprises including analysis of changes in relative importance of fixed and variable costs. This research would help to determine the relationship of the cost structure to production responses.

4*. Impacts of Technology and Farm Adjustment Programs on Labor Resources, Utilization and Requirements. Labor-saving equipment and farm adjustment programs have greatly altered the need for, and use of, labor in many areas. Research should be expanded in important farming areas in impacts of technical change and adjustment programs on labor requirements, utilization, and availability of farm labor, and subsequent effects of changes in the farm labor force on farm organization and operation.

5. Labor Utilization and Potential Labor Resources. In many low income areas, human labor is the most important resource of rural families. Research should be expanded to locate and evaluate available under-utilized rural manpower for farm and nonfarm work.

These studies should involve appraisals of farm and other resources available to the farm family and their skills and employment experience; determination of the extent to which rural workers are informed of employment opportunities; and an evaluation of feasibility of occupational adjustment.

6. Economics of Farmstead Equipment, Operations and Design. The mechanization of livestock handling and farm product storage and conditioning has lagged behind mechanization of field operations. Research should be expanded on economic aspects of materials-handling processes as related to new developments in farm structures and farmstead equipment and to the layout of the farmstead, to promote most efficient use of labor, buildings and equipment.

V. RESEARCH ON ADJUSTMENTS IN FARMING 5/

1. Farm Program Analyses. Research to determine the economic effects of alternative courses of action designed to bring agricultural production in a more desirable balance with consumption should be expanded. As long as

*These 2 recommendations are of equal priority.

5/ Recommendations 1 to 4 are of high priority; recommendations 5 to 7 of medium priority; and recommendation 8 of low priority.

production continues to outrun demand, public programs to alleviate the imbalance will be proposed. Analyses of probable effects of measures that are either strongly advocated or appear promising might help avoid the more ineffective ones.

2. Analyses of Production Response. The continuing strong tendency for farm production to exceed market outlets results in a persistent demand for modification of production control and price-support programs. Research in production response at the farm, regional, and national levels should be expanded so that more comprehensive information can be made available on the effects of changes in prices received, costs, technology, and other factors on production of major commodities and on total farm output. Additional analyses of how farmers adjust production to changing economic and other conditions could provide guides for more effective farm programs.

3. Vertical Integration. The growing complexity of farm technology and the development of mass retailing through chain stores and supermarkets have increased the specification buying of farm products and the production under contract or other forms of vertical integration. The increasing integration of farm and business firms and the accompanying changes in the organization and scale of farming are subjects of widespread public concern because of their implications for farms, farm incomes, and status of farmers. Research should be expanded on agriculture-business integration to appraise the current and prospective trends and their implications on production, efficiency, incomes, financing, risk, the structure and tenure of family farms, product quality, marketing organization and costs, and pricing practices.

4. Profitable Adjustments in Farming. Continuing surplus production of major farm commodities emphasizes the need for adjustments in farm organization and output and in the allocation of resources used in farming. Economic research should be expanded to analyze: (1) Possible adjustments in production which would be profitable for representative farming situations in major types of farming areas; (2) the aggregate impacts of such adjustments within the respective agricultural regions and for the nation as a whole.

Both the surplus problem and the apparent conflicts between desirable adjustments for the individual farmer and desirable adjustments for the industry, as a whole, require continuing analyses of profitable adjustments and the most economic use of farm resources.

5. Economics of Farm Size. In view of the long-run trends toward more specialized and commercialized farming and of changing technology and cost-price relationships, questions of the economies of scale in farming are becoming increasingly important to farmers and to agricultural leaders. Research should be initiated to analyze the economics of farm size for common types of farming in major production areas. The study should determine, for important types of farms, relative costs and efficiencies for different sizes of farms.

6*. Progress in Low-Income Farm Areas. Low incomes to farm families are widespread throughout large areas of the South, the Appalachians, the Ozarks,

* Recommendations 6 and 7 of this section are of equal priority.

the upper portions of the Lake States, and in scattered areas in the West. Research should be expanded to identify, analyze, and evaluate (1) the major technical, economic and institutional factors associated with different rates of progress in income status of people in selected low income farm areas and (2) the problems encountered by them in achieving adjustments in the use of resources employed in agriculture and methods employed in meeting these problems.

7*. Economics of Farm Forestry. The generally low production of farm timberlands frequently stems from inadequate information about the place of forestry in the farm business. Failure to use them productively will leave the nation short of needed forest products. Research on the amount and timing of prospective returns from forestry in relation to returns from competing land uses and activities can help farm forest owners improve their allocations of investment, land, and labor devoted to timber and other crops.

8. Economics of Conservation. Better knowledge of the effect of specific soil and water conservation practices and systems of farming on profits is needed to guide the development of conservation programs. Research on the costs and returns of various conservation practices and associated land use adjustments should be expanded, especially in areas where recommended conservation practices have a particular bearing on production adjustments and on the operation of government programs.

VI. AGRICULTURAL FINANCE RESEARCH 6/

1. Effect of Tax Structure Changes on Agriculture. A steady uptrend in State and local government expenditures has placed great strain on existing revenue sources. As a result, many States are giving consideration to basic alterations in their tax structures. Research should be initiated to show how various changes in tax structures would affect agriculture. Attention should be given, for example, to changes in the distribution of the tax load that accompany increasing reliance on State sales or income taxes. Also, the role of the property tax in State and local finance should be reconsidered, particularly in those States where land is being shifted to less intensive uses.

Studies in selected areas should give consideration to possibilities of modifying the State-local division of administrative and financial responsibility for governmental functions in rural and suburban areas, and to possible modifications of State aid systems.

2. Real Estate Values, Assessment, and Tax Problems in Urban-Fringe Areas. The growing tax burden on farmers in areas influenced by industrial and residential development is rapidly becoming a more serious problem. Rising revenue demands have aggravated the difficult problem of assessing farmland

* Recommendations 6 and 7 of this section are of equal priority.

6/ Recommendations 1 to 3 are of high priority; and recommendations 4 to 6 of medium priority.

in suburban areas for tax purposes, and have often imposed an excessive tax burden on land remaining in agriculture. Studies should be initiated in selected urban fringe areas to determine the extent to which existing assessment procedures need to be modified.

3. Analysis of the Farm Real Estate Market. Prospective buyers and sellers of farms and farm lenders are vitally concerned with land values and currently face difficult valuation decisions because of present high values and low rates of return. Research should be expanded to determine and appraise the various factors that are important in establishing market values and their probable importance in the future. Institutional and quasi-economic forces operating in the market and the limitations and imperfections of the existing market structure and organization for farm real estate should be examined.

4. New Financing Arrangements for Farm Enterprises. New financing arrangements are developing to facilitate the rapid changes that are occurring in the size, organization, and ownership of farms. Expanded research is needed to keep abreast of these new financing developments, to test their soundness, and to promote more rapid adoption of improved methods of financing.

Attention should be given to means of financing conservation practices, irrigation in humid areas, and production adjustments needed on low-income farms. There is urgent need for the development and more common use of arrangements under which farmers may minimize the various risks involved in increasing their use of capital.

5. Financial Impact of Social Security on Farmers. With a retirement income assured for old age, farm people now can make more definite retirement plans from a wider range of alternatives. Expanded research is needed to determine how social security coverage is affecting insurance programming, retirement and retirement plans, the taxes of farm operators, farm tenure (including partnerships), and the number, size, organization, and management of farms.

6. Economics of Risk in Farming. Risk-bearing is a necessary function of ownership and management in farming, and it is a costly function where floods, droughts, and other production hazards are added to price uncertainties. Research should be expanded to analyze alternative means by which farm risks can be reduced or shifted, including possible modifications of existing credit and taxation policies which at times impose excessive burdens when farm incomes are reduced.

VII. FARM POPULATION AND RURAL LIFE RESEARCH 7/

1. Effects of Rapid Suburbanization on Rural Population. Each year thousands of farm families experience occupational adjustments and other changes in mode of living as a result of the continuing expansion of the major metropolitan areas. It is recommended that studies be made of the nature and

7/ Recommendations 1 to 4 are of high priority; and recommendation 5 of low priority.

extent of changes taking place in farm communities adjacent to the rapidly expanding suburbs of a representative metropolitan area. Such studies would analyze the effects of rapid suburbanization on farm families and rural-nonfarm families with respect to extent of part time farming, labor force patterns and participation, levels of living and income, migration patterns, social participation, and the attitudes of rural residents toward socio-economic changes wrought by the expanding suburban communities.

2*. Analyses of Farm Population Changes, 1950-60. Between 1950 and 1960 the farm population of the U. S. will have undergone major changes in distribution and characteristics having broad social and economic implications. Work should begin on the design of analytical studies to be made from the data of the 1960 censuses. These should measure the degree of redistribution of the farm population, analyze the reasons for population movements, and evaluate the principal social and economic implications of population changes.

3*. Rural Community Organization. Changes in the structure of agriculture, changes in occupations and income sources in rural areas, increased opportunities for mobility and communication, and other factors are exerting important changes in rural community organization. Research should be undertaken on the impact of agricultural adjustments and associated economic and technological changes on the character of community organization in rural areas.

4. Participation of Farm Youths in Higher Education. Present-day and future demands for professionally and scientifically trained manpower require complete assurance that no waste of actual or potential talent be permitted in any segment of our society. This is particularly true in an age on the verge of scientific break throughs of the most fundamental and revolutionary character. It is recommended that a series of studies be carried out on the extent to which farm youths avail themselves of college or university education, the relative adequacy of their pre-college preparation, their professional aspirations, and of the factors that promote or hinder wider participation of rural youths in higher education.

Previous patterns of cultural and physical isolation of farm families are disappearing, but it is not at all certain that our rural society of today is free from impediments affecting increased participation in higher education. What these impediments are and what to do about them are questions that these studies should seek to answer.

5. Factors Related to Farmers' Expenditures for Health and Medical Care. Expenditures for health care constitute a major outlay for farm families. Further study should be made of factors related to farmers' expenditures for health and medical care services and voluntary health insurance in the United States.

*Recommendations 2 and 3 of this section are of equal priority.

VIII. SPECIAL MARKETING RESEARCH PROBLEMS 8/

1*. Supply and Price Adjustments Among Competing Markets. Shippers, wholesale receivers, and retailers need to adapt to their particular situations those practices and organizations that tend to promote rapid and efficient adjustments in available supplies. Research should be initiated on (1) the nature and the extent of adjustments in available supplies that shippers, wholesale receivers, and storage operators can make to meet changing market conditions, and (2) the extent of price adjustments retailers and other buyers must make to bring about desired adjustments in supplies. Particular attention should be given to the practices and channels used by marketing firms in adjusting supplies and prices to changing conditions. These conditions, marketing practices, and changes in distribution channels affect the speed and efficiency with which adjustments take place among markets and the availability over time of supplies to wholesalers and retailers. The findings will also assist the Department in organizing service programs such as market news for maximum assistance to marketers.

2*. Measurement of Aggregate Output and Efficiency in Farm Food Marketing. In order to promote efficiency in the marketing system for agricultural products, it is important to determine those adjustments which need to be made. Research should be initiated to answer such questions as the following, which are of concern to farmers, marketing agencies, and public programs in agriculture: (a) How much of the rise in marketing costs reflects increased services and/or increased costs per unit of service by marketing agencies? (b) Are firms engaged in marketing food more or less efficient than those in other parts of the economy? (c) If differences in efficiency do exist between industries engaged in food marketing and other industries, what are the factors accounting for these differences? (d) Which parts of the marketing system appear to be the most fertile for increasing efficiency?

3. Capital Usage and Costs in Marketing. The broad-scale adoption of new technology in many marketing operations in recent years, together with the growing size of the agricultural marketing industry and the increasing outlays for durable and other equipment, have sharply increased the need for capital for industrial firms and have resulted in the wider usage of a variety of techniques for obtaining adequate capital. A study should be initiated to determine the changing importance of capital costs, the methods employed to obtain capital, and the repercussions of the terms and conditions under which capital is available on the costs, prices, and efficiency of marketing.

Ownership and leasing of land, building, and equipment, and changes in the extent to which the storage service is performed by processing firms; have influenced the rapidity and extent to which certain firms have adopted new processes or shifted location, have contributed to the growing integrating of marketing firms with consequent possibilities of repercussions on prices paid and received, and have changed costs of capital employed in agricultural marketing.

8/ Recommendations 1 and 2 are of high priority; recommendation 3 of medium priority; and recommendations 4 and 5 of low priority.

* Recommendations 1 and 2 in this section are of equal priority.

4. Evaluation of the Methods of Distributing Federally Donated Foods Within States. An economic evaluation should be undertaken of the relative effectiveness of different types of distribution systems used by States in handling Federally donated foods, including an analysis of the services rendered by each method and the relationship of cost to types and amounts of services performed. This would provide (a) the basis of possible improvement in State distribution systems, and (b) better guides for judging the reasonableness of distribution charges made to recipient State agencies.

5. The Impact of Taxation on Marketing. Federal, State and local tax laws have become a potent force in marketing costs and in molding the existing agricultural marketing structure. Research should be undertaken to: (a) Determine the extent and nature of taxes applying to agricultural products and firms handling these products; (b) ascertain how tax laws are influencing business decisions by marketing firms; and (c) appraise these effects of tax laws on the efficiency of marketing, the pricing of agricultural commodities at the different levels of trade and the adaptability of the marketing system to technological and other types of change.

